

Message Text

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ORIGIN NEA-10

INFO OCT-01 ISO-00 EB-08 AGRE-00 AID-05 TRSE-00 IGA-02
OMB-01 SP-02 L-03 CIAE-00 INR-07 NSAE-00 ITC-01
INRE-00 /040 R

DRAFTED BY NEA/EGY:C A KENNEDY/USDA/GSM/CEP:R E SPENCER:MM
APPROVED BY NEA:N A VELIOTES
AGRIC:OGSM:CEP-G S SHANKLIN
AGRIC:OGSM:CEP-F A WOODLING
AGRIC:OGSM:CEP-K O STEPHENS
AGRIC:ASCS:FI -R TUCKER
AGRIC:FAS-V E LANIER
AGRIC:FAS -E R BEVIS
EB/ORF/FP:S JOHNSON
TREASURY/OTF:R STANDARD

-----084207 072126Z /63

O 072051Z DEC 77
FM SECSTATE WASHDC
TO AMEMBASSY CAIRO IMMEDIATE

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FOR AMBASSADOR FROM STATE, TREASURY AND AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, EG, US

SUBJECT: CCC CREDIT FOR COTTON

REF: A. CAIRO 19755; B. STATE 260123; C. STATE 263751

1. WE SHARE YOUR CONCERNS AND WE WISH TO BE RESPONSIVE TO
EGYPTIAN NEEDS, ESPECIALLY AT THIS TIME. CONSIDERATIONS
IN WASHINGTON OVER PAST SIX WEEKS HAVE BEEN DIRECTED AT
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CCC CREDIT AS BEING ALTERNATIVE PREFERRED BY GOE. IF THIS
CANNOT BE RESOLVED PROMPTLY, WE ARE READY TO CONSIDER A
MORE EXPEDITIOUS ALTERNATIVE FOR FINANCING COTTON PUR-
CHASES.

2. GOE'S PAST PERFORMANCE ON CCC ACCOUNTS AND CONTINUING
GOE CONFUSION ABOUT PAYMENT PROCEDURES POSE REAL POLICY

AND POSSIBLY STATUTORY PROBLEMS FOR USDA. CCC CREDIT, AS COMMERCIAL FINANCING, INVOKES CONSTRAINTS WHICH ARE MORE STRICT THAN FINANCING UNDER CONCESSIONAL LENDING TERMS. IN THIS REGARD WE DO NOT FEEL THAT IT WOULD BE IN OUR INTEREST OR THE EGYPTIAN INTEREST TO BE TOO LENIENT ON CONDITIONS FOR NEW LINE OF CREDIT WHICH WOULD COMPLICATE CCC'S DEALINGS WITH OTHER COUNTRIES AND TEND TO PERPETUATE EGYPTIAN DEFICIENCIES IN PAYING ITS OBLIGATIONS. IN REFTELS B AND C, OF COURSE, WE OUTLINED CONDITIONS UNDER WHICH CCC

IS WILLING TO PROCEED TOWARD NEW LINE OF CREDIT. ON MATTER OF ARREARAGES, USDA OPINES THAT ITS LEGISLATION AND REGULATIONS AT LEAST IMPLY THAT CLIENTS MUST BE CURRENT ON EXISTING ACCOUNTS BEFORE A NEW LINE OF CREDIT CAN BE GRANTED. IT CERTAINLY IS USDA POLICY. WITH REGARD TO NEW CREDIT LINE FOR EGYPT, USDA WILL NOT INSIST ON ABSOLUTE CLEARANCE OF ARREARAGES, BUT EGYPT MUST BE VIRTUALLY PAID UP (ALSO SEE PARA 6 BELOW). WITH ALL DUE RESPECT, WE FEEL THAT TIME WHICH HAS ELAPSED SINCE INITIAL REQUEST TO CONSIDER NEW CREDIT LINE IS ATTRIBUTABLE TO GOE AND NOT WASHINGTON AGENCIES. WE HAVE TRIED VERY HARD TO INSURE THAT THERE ARE NO BUREAUCRATIC IMPEDIMENTS AT THIS END AND THAT THE CONSIDERATIONS IMPOSED FOR PROCESSING ANY NEW LINE OF CREDIT ARE ENTIRELY BASED ON LEGAL OR ESTABLISHED POLICY REQUIREMENTS.

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3. HEART OF THE PROBLEM RE ARREARAGE ISSUE IS UNIQUELY COMPLICATED SYSTEM OF PAYMENT EMPLOYED BY EGYPTIANS. NATIONAL BANK OF EGYPT (NBE) DOES NOT AUTHORIZE U.S. CONFIRMING BANKS TO PROMPTLY HONOR ALL DRAFTS ON PRESENTATION BY CCC AS IS THE NORMAL CASE WITH OTHER CCC CLIENTS (SEE SECTION 1488.8, PARA (E), OF GSM-5 REGULATIONS AND SPECIMEN LETTERS OF CREDIT, PAGES 7 AND 8 OF BLUE PAMPHLET DATED APRIL 1977, "CCC EXPORT CREDIT SALES PROGRAM", GENERAL INFORMATION FOR PROGRAM PARTICIPANTS). IN FACT, NBE EMPLOYS A SYSTEM WHICH REQUIRES U.S. CONFIRMING BANK TO SECURE NOT ONE BUT TWO SEQUENTIAL AUTHORIZATIONS FROM NBE BEFORE PAYING CCC DRAFTS. WE ARE SURE YOU CAN APPRECIATE THE OPPORTUNITIES FOR DELAYS AND MISPLACED COMMUNICATIONS INHERENT IN SUCH A SYSTEM.

4. ON THE QUESTION OF CURRENT ARREARAGES, USDA RECORDS SHOW THAT AS OF DECEMBER 1, 1977, EGYPTIAN ARREARAGES TOTAL DOLLARS 1,250,936.14. ALTHOUGH EGYPTIANS HAVE INSTRUCTED THEIR BANKS TO MAKE PAYMENTS TOTALING MORE THAN DOLLARS 1.3 MILLION BETWEEN AUGUST AND NOVEMBER OF THIS YEAR (AND THESE PAYMENTS HAVE BEEN TAKEN INTO ACCOUNT ON SUBSEQUENT CCC BILLINGS), THE REASON ARREARAGES TOTAL

DID NOT DECREASE BY THE FULL AMOUNT IS BECAUSE OTHER OUTSTANDING OBLIGATIONS BECAME DELINQUENT IN THE INTERIM. THEREFORE, THE EGYPTIANS HAVE NOT BEEN PAYING ARREARAGES ALONE BUT A MIX OF ARREARAGES AND CURRENT OBLIGATIONS AND IN SUCH A FASHION THAT THE ARREARAGES TOTAL TENDS TO REMAIN FAIRLY CONSTANT OVERTIME.

5. WE ARE PUZZLED AS TO HOW THERE CAN BE ANY UNCLEARNESS ON PART OF NBE AS TO WHAT THE AMOUNTS IN ARREARS ARE. THE STATEMENT SENT MONTHLY TO THE EMBASSY WITH AN EXTRA COPY FOR THE NBE IN OUR OPINION PROVIDES ALL RELEVANT DATA. IF

HOWEVER, THIS DOCUMENT IS INADEQUATE, WE WOULD APPRECIATE SUGGESTIONS THE EMBASSY HAS FOR CLARIFYING THE INFORMAL LIMITED OFFICIAL USE

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TION. ALTHOUGH USDA HAS BEEN IN PHONE CONTACT WITH AGATT ON THIS MATTER AND FEELS STRONGLY THAT EMBASSY HAS SUFFICIENT EXPERTISE, USDA NOW WILLING TO PROVIDE AN EXPERT IN THIS AREA OF FINANCING FOR VISIT TO CAIRO TO CLEAR UP ANY MISUNDERSTANDINGS WHICH MAY PREVAIL IF YOU FEEL THIS IS VERY NECESSARY. IN THE MEANTIME, USDA ALSO IS SENDING EMBASSY MOST CURRENT DETAILED STATEMENT OF EGYPT ACCOUNT AND PAYMENTS COMING DUE.

6. ON THE SUGGESTION OF AN ESCROW ARRANGEMENT, WE CERTAINLY AGREE THAT IT DEMONSTRATES EGYPTIAN WILLINGNESS TO RESOLVE THE ARREARAGE ISSUE. UNFORTUNATELY, IT WOULD NOT SATISFY LEGAL AND POLICY CONSTRAINTS AS OUTLINED IN PARA 2 ABOVE.

7. IF EGYPTIANS CAN CLEAR UP CURRENT ARREARAGES OF DOLLARS 1,250,936.14 AND SEND US NAME OF U.S. OR THIRD COUNTRY BANK ACCEPTABLE TO CCC WHICH GOE ASSURES WILL ISSUE LETTERS OF CREDIT REQUIRED BY REGULATION CITED IN PARA 3 ABOVE, WE ARE PREPARED TO PROCEED PROMPTLY WITH NEW CREDIT LINE. USDA WILL NOT DELAY PROCESS OVER SMALL DIFFERENCE IN ARREARAGE STATUS IF ACCOUNT NOT EXACTLY CLEARED AT TIME OF FORMAL APPLICATION.

8. IN ANTICIPATION OF FULFILLMENT OF THESE REQUIREMENTS, USDA WILL NEED CERTAIN INFORMATION FOR JUSTIFICATION OF FINANCING. THIS REQUEST BEING SENT SEPTTEL. CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT, COTTON
Control Number: n/a
Copy: SINGLE
Sent Date: 07-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE291971
Document Source: CORE
Document Unique ID: 00
Drafter: C A KENNEDY/USDA/GSM/CEP:R E SPENCER:MM
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770455-0286
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771281/aaaacrdg.tel
Line Count: 163
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 21869009-c288-dd11-92da-001cc4696bcc
Office: ORIGIN NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 CAIRO 19755, 77 STATE 260123, 77 STATE 263751
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 13-Apr-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 324051
Secure: OPEN
Status: NATIVE
Subject: CCC CREDIT FOR COTTON
TAGS: EAGR, EG, US
To: CAIRO
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/21869009-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009